

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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**August 12, 2008**

**Mike N. Williams, Director**

Department of Airports  
825 East Third Street, Room 203  
San Bernardino, CA 92415-0831

**SUBJECT: ACCOUNTS RECEIVABLE / CASH CONTROL AUDIT**

## Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing and the Standard Practice for Cash and Internal Controls, we have completed the accounts receivable / cash control audit of the Department of Airports. Our audit was conducted in accordance with the standards developed by the International Standards for the Professional Practice of Internal Auditing.

## Background

The Department of Airports (Department) operates six county airports, one of which is the Chino Airport. Chino Airport has a commercial hanger, is a FAA designated reliever to John Wayne Airport and is considered one of the largest general aviation airports in the county. The Department has three authorized cash funds, which total \$3,000. The Department's primary revenue source is from leases, user fees and for Apple Valley Airport, property taxes dedicated to the support of CSA-60.

## Scope of Audit

Our objective was to determine if account receivable records are maintained and reported accurately and to determine whether the cash handling controls practiced were effective. Specifically, we determined whether:

- Account Receivable (A/R) records are maintained to provide reasonable assurance that customer account balances are accurate and past due accounts can be identified.
- Account receivables are reported accurately.
- Cash assets are properly safeguarded.
- Cash deposits are made on a timely basis.
- Petty cash fund is managed in accordance with the County's Internal Control and Cash Manual.

We accomplished our objectives by performing the following audit procedures:

- We reviewed A/R delinquency reports and a sample of lease payments.
- We performed surprise cash counts of the authorized petty cash fund and undeposited receipts.
- We reviewed a sample of cash deposits for the period of April 1, 2007 through September 30, 2007.
- We interviewed Airport personnel regarding account receivable and cash fund management.
- We inquired of management regarding the communication of policies and procedures to the staff members.

A draft report was sent to the Department on August 6, 2008 and was discussed with management on August 12, 2008. The department's responses to our recommendations are included in this report.

### **Overall Conclusion**

We have concluded that both the A/R procedures practiced and the cash handling controls at the Department need to be improved to better safeguard cash assets and ensure receivables are reported accurately. The improvements needed were specially related to:

- Overall cash control safeguards
- Management of authorized cash funds
- Supervisory oversight procedures
- Reporting receivables
- Procedures over writing off account balances

### **Findings and Recommendations**

The specific policies, procedures, and practices that need improvement are discussed below.

#### **Audit Finding #1      Procedures over the reporting of delinquent account balances need to be improved.**

It is a common business practice that management review receivable reports for accuracy and that the ending period be documented on delinquency or revenue reports to accurately portray information to report users.

The following conditions were identified during our review:

- Management does not review delinquency report for accuracy or document evidence of review on the report prior to it being submitted to the Airports Commission.
- Delinquencies were understated one month by \$42,699 on active leases.

- The Department does not document the date the reports are run or the ending period of the delinquencies which can be misleading to report users.
- The Department is not determining delinquencies or applying late fees in accordance to the fee ordinance adopted by the County Board of Supervisors.

If management does not review delinquency reports for accuracy, delinquencies can be over or understated, provide wrong data to report users and allow accounting irregularities to go undetected.

**Recommendation**

We recommend management review delinquency reports for completeness and accuracy on a monthly basis. We further recommend that the ending period and/or date the reports are run be documented on the reports for users.

**Management's Response:**

*We concur with the audit findings and have resolved the deficiency as follows:*

*All delinquency reports are now created and filed at a date certain time.*

*Management will routinely reviews delinquency reports for completeness and accuracy.*

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Audit Finding #2    The department is not reporting receivables at fiscal year end.**

The Year-End Closing Manual, states all departments must abide by the procedures set forth in the manual in regards to preparing and submitting the closing documents for fiscal year-end. In regards to receivables, if recognition criteria is met at 6/30/07, and the amounts are expected to be collected sometime within 60 days, then those amounts should be accrued.

The following condition was identified during our review:

- The Department only submitted fiscal year-end documents to report deferred revenue and did not submit documents to record receivables in the amount of \$29,715 at fiscal year end.
- The department did not follow fiscal year-end procedures relating to receivables as instructed in the Year-End Closing Manual.

If the department does not follow the fiscal year-end procedures and submit the appropriate closing documents pertaining to receivables, receivables will be understated for the fiscal year.

**Recommendation**

We recommend the Department comply with the Year-End Closing Manual that is distributed to all county departments and submit the necessary closing documents as instructed.

**Management's Response:**

*We concur with the audit findings and will resolve the deficiency as follows:*

*The Department of Airports will comply with Year-End Closing Manual procedures by submitting all required closing documents to include receivables due at fiscal year end. Management will review and confirm completeness of final year submission.*

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Audit Finding #3    The department is not properly writing off delinquent accounts.**

The County's Internal Control and Cash Manual (08/05), Chapter 14 – Accounts Receivable, states County departments must maintain an Accounts Receivable control ledger when fees, fines or other payments due are not collected at the time the service or product is provided to a customer. In addition when departments determine it is uneconomical to pursue collection or if all collection efforts have been exhausted the department should submit a request for discharge from accountability to ACR-Internal Audits Section so the charge against the department head is removed.

The following conditions were identified during our review:

- The staff analyst has authority to issue credit adjustments to a zero balance and close accounts without management's documented approval.
- Payments received after the closure of an account could not easily be identified on the system.
- The department does not maintain a report that identifies all delinquent balances, including the \$538,163.38 currently with Central Collections, or submits requests for discharge from accountability to the Internal Audits Section. This results in the outstanding balances not being monitored internally by the department's management because they do not appear on delinquency reports or externally by ACR because discharge requests are not submitted prior to writing off delinquent accounts.

- The staff analyst writing off accounts has authority to post payments, issue credit adjustments and close accounts in the system; has complete access to the check log where receipts are recorded; has possession of the cash and checks received and prepares the delinquency reports for the commission.
- Management is not approving or monitoring write-offs nor does the Department have policies and procedures that communicate the whole process on how to handle delinquent accounts and write-offs to staff.

If the Department does not properly report all account balances, write-off accounts and management does not monitor and approve write-offs, the risk of cash being misappropriated is higher.

### **Recommendation**

We recommend the department develop and implement internal policies and procedures that at a minimum comply with the County's Internal Controls and Cash Manual's required guidelines on how to handle receivables and write-offs. The staff analyst should report all delinquencies, including the accounts assigned to Central Collections, for management to monitor and should not be writing off accounts until documented approval is received from management and a request for discharge from accountability is approved by the Internal Audits Section. We further recommend that the staff analyst not have total control over the Aeroware system and access to all fiscal records.

### **Management's Response:**

*We concur with audit findings and will resolve the deficiency as follows:*

*The Department of Airports is currently developing procedures that comply with the County's Internal Controls and Cash Manual which will include the following:*

- 1. The Director of Airports or designee will be sole authority to authorize write-offs of delinquent accounts. The write off procedure will comply with current CAO approved policy.*
- 2. An internal procedure will be created to track and audit delinquent accounts that reside with the Department of Airports or Central Collections. Director of Airports or designee will review and acknowledge the resultant report no less than monthly.*
- 3. The Check-Log is now password protected. Access to the log is limited to the fiscal assistant responsible for log upkeep. Director of Airports retains ability to access log if required.*
- 4. The Staff Analyst has authority to issue credits of thirty dollars or less. This figure equates to the administrative fee generated for late payments. Credits greater than thirty dollars will require approval of the Director of*

*Airports or designee. Staff Analyst will prepare a report no less than monthly, of all credits issued or applied during the designated period, for review and acknowledgement by the Director of Airports or designee.*

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Audit Finding #4    Cash handling controls need to be improved.**

The County's Internal Control and Cash Manual (8/05), Chapter 6 - Receipts, states if a department receives a large volume of remittances by mail, the person opening the mail must total the cash, checks, and money orders received in a spreadsheet along with identifying data that can be reconciled and turned over to the cashier. The cashier must issue an Official County Receipt for the total of the items and sign the calculator tape or spreadsheet acknowledging receipt of the total amount indicated. Chapter 3 - Cash Controls, states departments should use a restrictive endorsement stamp on all checks and money orders as soon as received and safe combinations should be changed annually.

The following conditions were identified during our review:

- One check was not endorsed as soon as received or listed on the check log to record the receipt of the payment. Per inquiry with staff this is a common practice on payments received on leases or contracts pending approval.
- The staff analyst, acting cashier for the department, does not verify or document their initials on the check log acknowledging the receipt of the total amount indicated on the log nor does the staff analyst issue an Official County Receipt to the office clerk II for the amount received.
- The staff analyst has authority to instruct staff as to what gets recorded into the check log which is the department's key control to record incoming receipts and is in custody of the receipts until the deposits are made. In addition the check log is not password protected and all employees have access to the log which leaves the opportunity to delete or change information recorded on the check log if desired.
- The safe combination is not changed when there is staffing changes or at least annually.
- The Department is not practicing, nor is management enforcing, the required guidelines as stated in the County's Internal Control and Cash Manual. In addition management has not developed internal departmental policies and procedures to ensure adequate controls are in place to minimize the risk of cash misappropriation.

The current procedure practiced by the department allows payments to be unaccounted for by not having a policy that ensures all payments, regardless of nature, are initially recorded and endorsed. That practice, in addition with the staff analyst position having the authority to post or delete transactions in the billing system and check log and having custody of the funds, increases the department's risk of funds being misappropriated. The department has a higher risk of cash being misappropriated by not having policies and procedures in place that at a minimum comply with the guidelines stated in the County's Internal Control and Cash Manual.

**Recommendation**

Management should develop and implement departmental policies and procedures that at a minimum comply with the County's Internal Control and Cash Manual's required guidelines. All incoming payments should be recorded as received in the check log by the office clerk in order to function as a receipt and be reliable. In addition the log should be password protected and be made available as a read-only file for staff involved in the payment posting and deposit process.

**Management's Response:**

*We concur with audit findings and have resolved the deficiency as follows:*

- 1. All checks are now immediately endorsed upon receipt.*
- 2. Upon receipt of Check-Log, the Staff Analyst or designee will acknowledge receipt and provide a copy of the same to fiscal assistant or designee responsible for log upkeep and completion. Monies received will be banked pursuant to Internal Controls and Cash Manual. Chain of custody of monies will be established and maintained through Check-Log, signature and date.*
- 3. Safe combinations throughout the Department of Airports have been changed and will be managed pursuant to Internal Controls and Cash Manual.*
- 4. The Check-Log is now password protected. Access to the log is limited to the fiscal assistant responsible for log upkeep. Director of Airports retains ability to access log if required*

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Audit Finding #5    The petty cash fund is not properly maintained.**

The County's Internal Control and Cash Manual (8/05), Chapter 4, states cash funds should be reconciled at least once a month by someone other than the fund custodian and of a higher ranking job code. For petty cash disbursements a petty cash voucher should be completed in permanent ink and approved by an authorized employee of a

higher-ranking job code than the requestor. Chapter 9, Bank Accounts, states all checks must display the words "Void six months from issue date".

The following conditions were identified during our review:

- Reconciliations of the cash held in the petty cash fund are not performed on a monthly basis.
- The petty cash fund checking account is not reconciled by someone in a higher ranking job code over the fund custodian; it is being reconciled by a fiscal assistant II who reports directly to the fund custodian.
- The department does not use petty cash vouchers on all purchases nor do they document supervisory approval prior to making purchases.
- There is a lack of segregation of duties since the fund custodian is the person in possession of the fund's cash and checks, approves expenses (verbally) and reconciles the cash fund prior to requesting for replenishment.
- The department does not consistently maintain the petty cash fund at the requested and approved of, \$800 to be maintained in a checking account and \$200 of cash on hand. When the auditor conducted the cash count the checking account was over by \$55.99 and the cash was short by \$54.65.
- The petty cash checking account checks do not display the words "Void six months from issue date".
- The department is not practicing, nor is management enforcing, the required guidelines as stated in the County's Internal Control and Cash Manual. In addition management has not developed internal departmental policies and procedures to ensure adequate segregation of duties are in place to minimize the risk of cash misappropriation.

The department has a high risk of cash being misappropriated by not having adequate segregation of duties in place and by not practicing the guidelines as stated in the County's Internal Controls and Cash Manual.

#### **Recommendation**

Management at the department should develop internal policies and procedures that at a minimum comply with the County's Internal Control and Cash Manual's required guidelines. In addition we recommend the department restructure the duties and role of the fund custodian so the custodian does not have complete control of the cash to minimize the risk of misappropriation.

#### **Management's Response:**

*We concur with audit findings and will resolve the deficiency as follows:*

1. *Reconciliations of the petty cash fund will be completed monthly by Director of Airports or designee.*
2. *Vouchers are now utilized for petty cash purchases.*



3. *Director of Airports or designee will approve all requests for replenishment of petty cash fund.*
4. *The Department of Airports will eliminate the cash portion of the petty cash fund. The fund will be managed strictly by checking account. The request will be formally rendered to the County Auditors office.*

*The Department of Airports will obtain checks that include the required "Void After Six Months" statement.*

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Audit Finding #6**      **The department does not have official policies and procedure in place in regards to the fiscal aspects of operations.**

It is key that management establish internal controls such as policies and procedures and communicate them to staff to increase assurance that managements financial policies are followed and financial objectives are achieved. In addition management should monitor these controls to ensure they are working as intended and to help detect errors and irregularities.

The following conditions were identified during auditors review:

- Procedure manuals currently in place are incomplete, outdated and in some cases obsolete.
- The department's practice is to communicate procedures verbally therefore auditor could not verify if the fiscal practices conducted by the staff analyst and staff conflict with the direction of the director.
- The department does not have official policies and procedures in regards to the fiscal aspects of operations approved by the director to provide guidance to employees, establish authority and internal controls for the department.

Without establishing and communicating fiscal policies and procedures to staff that establish guidelines, authority and controls the risk of the department not achieving its financial objectives, the risk of cash being misappropriated increases.

**Recommendation**

We recommend Management develop, implement and communicate official policies and procedures approved by the department head to provide guidelines, establish authority and implement controls for the department.

**Management's Response:**

*We concur with audit findings and will resolve the deficiency as follows:*

*The Department of Airports is currently developing written procedures for the lines of business activities for which it conducts and is responsible to complete. Administrative and fiscal authorities, duties and responsibilities will be clearly defined. The department of Airports anticipates that this document will be completed by July 1, 2009.*

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

We would like to express our appreciation to the staff at the Department of Airports for their support and cooperation during the audit.

Respectfully submitted,

**Larry Walker**

Auditor/Controller-Recorder

By:

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Date Report Distributed: 10/30/08

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